



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

OWD 710.6.1

August 18, 2004
04-OWD-050(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: FY 2005 Audit Management and Reporting Guidance for Iraq Reconstruction

Background

To facilitate the identification of contract audit requirements and management of resources and to clarify reporting requirements, this MRD consolidates previous guidance issued for Iraq Contract Audits. This memorandum supersedes and/or supplements the following guidance:

Superseded:

1. MRD 03-OWD-063(R), dated December 1, 2003, subject: DCAA Audit Support of Iraq Reconstruction
2. MRD 03-O-064(NR), dated December 2, 2003, subject: Iraq Audit Coordination
3. MRD 04-OWD-011(NR), dated February 25, 2004, subject: Iraq Audit Coordination – Follow-Up Actions

Supplemented:

1. MRD 04-OWD-041(R), dated July 16, 2004, subject: FY 05 Planning and Staff Allocation Document
2. Northeastern Region memorandum, dated January 26, 2004, subject: Process for Updating Information on Iraq Reconstruction Contracts. Note: Distribution for this memorandum was RDs, FDD, D, DD, and O.
3. Northeastern E-mail of March 25, 2004, subject: Revised Data Sheet and Supplemental Instructions. Note: Distribution limited to affected FAOs.

Guidance

The unique and critical environment of the Iraq reconstruction effort has resulted in both internal and external reporting requirements within DCAA, the Department, and Congress. Since we expect these reporting requirements to continue throughout FY 2005, it is critical to maintain the accuracy of the data reported. The sources of the data reflected in all reporting are DMIS and the data provided and maintained by the Northeastern Region for its monthly update process. The reporting processes established in FY 2004 will continue as designed, and the following criteria should be used for all such reporting.

SUBJECT: FY 2005 Audit Management and Reporting Guidance for Iraq Reconstruction

Iraq Reconstruction Support – Threshold Criteria for Six-Month Testing Procedures

DCAA support for the negotiation, administration and settlement of contracts and subcontracts related to Iraq reconstruction will continue to be of the highest priority in FY 2005. To supplement our standard audit requirements, the incurred and billed direct costs on Iraq related contracts/subcontracts will be audited in accordance with the table below. The specific criteria for planning semi-annual testing of auditable contracts and subcontracts are as follows:

Contract/Subcontract Value	Testing Procedure <i>(See Note)</i>
Equal or Greater than \$50 Million	Semi-Annual testing for the life of the contract/subcontract
Less than \$50 Million	Testing at 6 months for ALL contracts and subcontracts. Thereafter, testing will be performed appropriate to the risk and vulnerability to the Government

Note: For purposes of determining required testing procedures, each task order will be treated as a separate contract; and any deviations from these procedures must be coordinated with the Regional Director.

DMIS Assignment Procedures and Responsibilities – Use of FCID Code 4101

All assignments being planned or set up must utilize FCID code 4101 for “Non-Billable Special Projects - Iraq Support.” FCID Code 4101 will be used by FAOs to identify and accumulate the hours expended in support of DoD’s Iraq Reconstruction Contracting. The only exceptions are those audits that are otherwise reimbursable for Iraq support effort. For example, the existing FCID codes for AID-Iraq effort (FCID 0721 and 0722) will still be used. Field Detachment will follow its standard procedures for setting up assignments (not identifying contractor name or ACO, etc).

1. Setup Tab

- Set up as normal, include normal ACO code; do not use Civilian Agency codes.
- For customer-requested audits (nondiscretionary), in the assignment description, indicate “Iraq Support” (without quotes) as the assignment description prefix (e.g. Iraq Support – Restore Iraq Oil)
- For contract-required audits (discretionary), continue to identify the audit as normal (e.g. 2003 Incurred Cost)

SUBJECT: FY 2005 Audit Management and Reporting Guidance for Iraq Reconstruction

2. Reimbursable Tab

- Add a reimbursable row and choose FCID 4101.
- Client Ref Id and FDN Id should be left blank.
- Enter prime contract, subcontract, and/or task order numbers, if known.
- ATB% = 100 (or other percentage, if appropriate, e.g., for contract-required audits)
- All other information should be left at the default.

3. Estimates at Completion (EACs)

Make sure EACs are correctly reflected in DMIS each pay period. FAOs will update EACs for contract-required audits (discretionary) in the assignments themselves. For customer-requested (nondiscretionary), FAOs will need to modify the “blanket” or plan records to reflect the percentage of FCID 4101 audits to DoD and other agency audits.

4. Assist Audit Request - DUNS Code

All requests for assist audits must identify whether the requested audit, or any portion thereof, is related to the Iraq support effort. In addition, an assist audit request from the prime FAO must provide the assisting FAO with the contractor DUNS code. Headquarters queries have revealed assist audits being set up with inaccurate information. To insure accurate data input, the requesting office should include the appropriate DUNS code in all assist audit requests. CAM 6-805.1 indicates “. . . the prime auditor will coordinate the overall plan or program, including assist audit requests, with the offsite auditor to assure proper integration of audit efforts at the respective locations.”

Contract Data Sheet - Subcontractor and Direct Costs Testing

The Northeastern regional instructions for capturing auditable dollars should continue to be utilized. These instructions (distributed March 25, 2004) are attached for easy reference. The enclosed template to capture the auditable dollars (including unexercised options) utilizes the current model with two exceptions. The updated template now provides visibility on subcontracts and direct costs testing.

1. Subcontract Data: This information should be readily available from the FAO’s contractor permanent files, contract briefs and requests for assist audits. **For purposes of this requirement, all auditable subcontracts will be included in the template used for contract reporting.**
2. Direct Costs Testing: Located in the “CONUS Audit Activity” block, the assignment number, planned hours and completion date will be included. When the audit is completed, the actual hours, date completed and audit findings will be provided.

SUBJECT: FY 2005 Audit Management and Reporting Guidance for Iraq Reconstruction

Please insure the following data is noted in the template for the Iraq reconstruction contracts:

- An affirmative response is required on whether or not the contract being documented has any auditable subcontracts and, if so, whether they will require assist audits.
- In order for the Iraq Branch Office (IBO) to adequately plan their workload, the template must indicate whether or not you require assist audits from IBO. This document should be placed in the block titled "In-Theater Audit Activity Including Issues/Findings."
- In addition to documenting direct-costs testing, the current status of audit activity regarding CCFY MAARS and forward pricing should be included in the block titled "CONUS Audit Activity Including Issues/Findings."

The monthly Northeastern Region updating process will continue as follows:

1. The Northeastern Region will forward the current inventory of Iraq contracts and contractors to the regional POCs NLT 3 working days prior to the end of the month.
2. Regional POCs will coordinate with FAOs involved to obtain updated information. (Information reflected on the data sheet should be as of the last day of the month.)
3. Completed data sheets should be forwarded by e-mail to the Northeastern Region RS-2 mailbox DCAA-RS-2@dcaa.mil no later than 3 working days after the month's end. All data sheets from a region should be sent in a single ZIP file.

Concluding Comment

If FAO personnel have any questions or comments concerning the procedures associated with this memorandum, they should contact their Special Programs office (for audit issues). If regional personnel have any questions or comments regarding the monthly status reports for the Northeastern Region, they should contact Mr. Tom Pawlowski, RS-2, at (978) 551-9801 or Tom.Pawlowski@dcaa.mil. All other questions regarding this memorandum should be directed to Ms. Patricia W. Hatcher, Program Manager, Workload Analysis Division, at (703) 767-2262 or DCAA-OWD@dcaa.mil.

/s/

Earl J. Newman
Assistant Director
Operations

Enclosures: 3

1. Northeastern Region Instructions
2. Data Sheet Template
3. Proforma Data Sheet (Sample)

DISTRIBUTION: C

Instructions

- **Only Auditable Contracts/Awards**
- **Only Those Contracts/Awards with Effort in Iraq**

CONTRACT VALUE

1. Awards with effort beyond Iraq

(Example – COE contingency contracts for US CENTCOM operations)

- Only include value of *issued* task orders with Iraq effort

(Example - Contract has 3 task orders: \$1.5 million; \$700,000; and \$2 million. Only the \$1.5 million order is for Iraq effort. *Show \$1.5 million as the contract value.* Also, on the Task Order section of the Data Sheet, only include those task orders for Iraq effort. *Do not list task orders which are not for Iraq effort.*)

2. Awards with effort exclusively in Iraq

A. Contracts without options or task/delivery orders

- Include actual contract value

B. Contracts with options or task/delivery orders

- Priced Options - Include amounts of all options whether exercised or not

(Example - Contract has a basic (\$1 million) and 3 options (\$500,000 each). The total potential contract is \$2.5 million. To date, only the basic and the first option have been exercised. Even though the second and third options have not been exercised, report the entire \$2.5 million as the contract value.)

- Unpriced Options – Include *estimated* value of all unpriced options
- On the schedule place an (E) and/or (U) to indicate estimated amount or unexercised option, respectively.

Undefinitized Work – A contract action which authorizes work at an undefinitized amount/price usually specifies a not-to-exceed (NTE) amount. Identify the NTE amount until the amount/price is definitized. If an NTE amount is not identified, provide a *best estimate* amount.

Contracts with Cost Type (CT) and FFP CLINs – Only include the amount for the CT CLINs; the value of the FFP CLINs should not be included.

AMOUNT BILLED – Identify the amount billed to date under the contract. For Basic Ordering Agreement/Indefinite Delivery, Indefinite Quantity type contracts with multiple delivery/task orders only include those orders for Iraq effort.

OPTION, CLIN, and TASK/DELIVERY ORDER INFORMATION – Only list those options, CLINs, and task/delivery orders for Iraq effort. The total award value and funded amount for the listed items should equal the CONTRACT VALUE and FUNDED AMOUNT shown at the top of the page.

CONUS/IN-THEATER AUDIT ACTIVITY INCLUDING ISSUES/FINDINGS – Provide a brief description of significant audit activities on the Iraq contract(s). At a minimum, include information on the status/results of reviews of incurred/billed costs, and reviews of contractor internal controls such as labor timekeeping and subcontract/purchasing procedures for in theater efforts. For issues/findings provide a description of the item and the potential dollar impact. *(This section should be limited to only significant or sensitive audit assignments.)*

ICAPS INFORMATION – For each ICAPS area indicate the current status (adequate, inadequate in part, or inadequate) and the report date. For in process reviews identify status as “In Process” with the estimated completion date.

IRAQ RECONSTRUCTION CONTRACTS
MONTH ENDING _____

Contractor Name & Location	
Cognizant Field Audit Office	

Contract Number		Contract Type	
Date of Award		Contract Value	
Issuing Activity			
Period of Performance		Funded Amount	
		Amount Billed	
Description of Contract Work			

**OPTION, CLIN, and
TASK/DELIVERY ORDER INFORMATION**

No.	Value	Note	Funded Amount	Period of Performance	Description of Work

NOTE:

(E) – indicates estimated amount

(U) – indicates unexercised option

CONUS Audit Activity Including Issues/Findings
In Theater Audit Activity Including Issues/Findings

MAJOR CONTRACTORS

ICAPS Areas and Status		
ICAPS Area	Status	Report Date
Billing System		
Budget System and Financial Controls		
Accounting System		
EDP - General Controls		
Purchasing System		
Material Management and Accounting System		
Accounting and Control of Labor Costs		
Compensation		
Other Indirect & ODC		
Estimating System		

ADDITIONAL CONTRACT AWARDS

Contract Number & Date of Award		Contract Type	
Issuing Activity		Contract Value	
Period of Performance		Funded Amount	
		Amount Billed	
Description of Contract Work			

OPTION, CLIN, and TASK/DELIVERY ORDER INFORMATION

No.	Value	Note	Funded Amount	Period of Performance	Description of Work

NOTE:

(E) – indicates estimated amount

(U) – indicates unexercised option

ADDITIONAL CONTRACT AWARDS

Contract Number & Date of Award		Contract Type	
Issuing Activity		Contract Value	
Period of Performance		Funded Amount	
		Amount Billed	
Description of Contract Work			

OPTION, CLIN, and TASK/DELIVERY ORDER INFORMATION

No.	Value	Note	Funded Amount	Period of Performance	Description of Work

NOTE:

(E) – indicates estimated amount

(U) – indicates unexercised option

SUBCONTRACTOR INFORMATION

(This section must be completed unless NA is shown in Subcontractor Name)

Subcontractor Name & Location	
Cognizant FAO and Point of Contact	
Date of Notification to the Cognizant FAO	
Purchasing System status for Prime Contractor	

Subcontract Number & Date of Award		Subcontract Type	
Prime Contract No.		Subcontract Value	
Period of Performance		Funded Amount	
Description of Subcontract Work			

IRAQ RECONSTRUCTION CONTRACTS
MONTH ENDING August 31, 2004

Contractor Name & Location	ABC Chemical Corporation Anytown, USA
Cognizant Field Audit Office	FAO (RORG: XXXXX)

Contract Number	XXXXX-04-D-1234	Contract Type	Various (cost type awards for Iraq)
Date of Award	November 21, 2003	Contract Value	NTE \$4,000,000,000
Issuing Activity	Air Force Material Command		
Period of Performance	Ordering Period extends thru the end of the 60 th month (November 2008). Performance of awarded task orders shall continue up to 36 months after the end of the ordering period.	Funded Amount	\$149,549,601
		Amount Billed	\$51,489,438
Description of Contract Work	Contract No. XXXXX-04-D-1234 is 1 of 27 awards by the Air Force under its Worldwide Environmental Restoration and Construction (WERC) program. WERC contracts offer a full range of construction and engineering activities to meet all base requirements. Requirements may be carried out under a task order (TO) at various worldwide locations. Requirements are primarily environmental but will also include a secondary requirement for traditional engineering needs. WERC also offers demolition, repair, emergency response, and operation and maintenance opportunities for both environmental and traditional engineering activities.		

**OPTION, CLIN, and
TASK/DELIVERY ORDER INFORMATION**

No.	Value	Note	Funded Amount	Period of Performance	Description of Work
0003	\$ 11,500,528	E	\$ 11,500,528	15 Apr 2004 – 15 Jan 2005	Repair Schools
0011	\$ 11,188,920	E	\$ 11,188,920	19 May 2004 -12 Aug 2005	Repair Schools

NOTE:

(E) – indicates estimated amount

(U) – indicates unexercised option

CONUS Audit Activity Including Issues/Findings

The FAO met with ABC's upper management on June 4, 2004 to gain a better understanding of how ABC plans to account/manage this work. Based on the meeting, the FAO plans the following:

Planned Actions:

1. Direct Costs Incurred and Total Costs Billed for Period inception through June 30, 2004: Planned completion date is August 31, 2004.
2. Subcontract Award and Administration: Since subcontract cost is estimated to be approximately 70 percent of costs, we will perform an examination of the adequacy of ECC's purchasing system internal controls related to subcontract award and administration. Planned completion date is September 30, 2004.
3. Financial Capability: Since ABC's sales will more than double from CY 2003, we will perform an evaluation of ABC's financial capability. Planned completion date is July 30, 2004.
4. Cost Performance Reports: Since these delivery orders have cost monitoring requirements, we plan to perform an evaluation of ABC's policies and procedures for accumulating data and preparing Cost Performance Reports (CPRs), Cost/Schedule Status Reports (C/SSRs), and Contract Fund Status Reports (CFSRs). Planned completion date is November 30, 2004.

In Theater Audit Activity Including Issues/Findings

1. MAAR 6 Assist Audit: We will shortly request an assist audit. Planned completion for the MAAR 6 is to be determined.
2. Cash Disbursement: On June 28, 2004, we request an assist audit from DCAA IBO. Planned completion date is to be determined.

MAJOR CONTRACTORS

ICAPS Areas and Status		
ICAPS Area	Status	Report Date
Billing System	Adequate	November 10, 2003
Budget System and Financial Controls		
Accounting System	Adequate	November 12, 2003
EDP - General Controls		
Purchasing System		
Material Management and Accounting System		
Accounting and Control of Labor Costs		
Compensation		
Other Indirect & ODC		
Estimating System	Adequate	March 10, 2004

ADDITIONAL CONTRACT AWARDS

Contract Number & Date of Award	XXXXXX-04-D-0008 February 27, 2004	Contract Type	FFP or T&M
Issuing Activity	US Army Engineering & Support Center	Contract Value	Maximum award is \$1,475,000,000
Period of Performance	Ordering Period Extends 5 years from 27 February 2004 through 26 February 2009	Funded Amount	\$400,000
		Amount Billed	\$151,000
Description of Contract Work	This contract will be used to support the U.S. Army's Captured Enemy Ammunition (CEA) mission in Iraq and potential similar services in Afghanistan.		

OPTION, CLIN, and TASK/DELIVERY ORDER INFORMATION

No.	Value	Note	Funded Amount	Period of Performance	Description of Work
001	\$ 21,921,907	E	\$ 21,921,907	1 May 2004 - 31 Dec 2004	Management of Captured Enemy Ammunition at Buckmaster Site in Iraq in Support of the U.S. Army Corps of Engineers Overseas Operations.

NOTE:

(E) – indicates estimated amount

(U) – indicates unexercised option

ADDITIONAL CONTRACT AWARDS

Contract Number & Date of Award	N/A	Contract Type	
Issuing Activity		Contract Value	
Period of Performance		Funded Amount	
		Amount Billed	
Description of Contract Work			

OPTION, CLIN, and TASK/DELIVERY ORDER INFORMATION

No.	Value	Note	Funded Amount	Period of Performance	Description of Work

NOTE:

(E) – indicates estimated amount

(U) – indicates unexercised option

SUBCONTRACTOR INFORMATION

(This section must be completed unless NA is shown in Subcontractor Name)

Subcontractor Name & Location	AAA Subcontractor Shady Park, California	
Cognizant FAO and Point of Contact	AAA Branch Office (RORG:01111) John Doe (619-111-1111)	
Date of Notification to the Cognizant FAO	April 5, 2004	
Purchasing System status for Prime Contractor	Planned completion date of September 30, 2004	

Subcontract Number & Date of Award	XXXSub2222-04-D-1111 December 21, 2003	Subcontract Type	Various (cost type awards for Iraq)
Prime Contract No.	XXXXX-04-D-1234	Subcontract Value	NTE \$80,000,000
Period of Performance	Performance of awarded task orders shall continue up to 36 months after the end of the ordering period.	Funded Amount	\$149,549,601
Description of Contract Work	1 of 5 awards by ECC under its Worldwide Environmental Restoration and Construction (WERC) program. WERC contracts offer a full range of construction and engineering activities to meet all base requirements. Requirements may be carried out under a task order (TO) at various worldwide locations. Requirements are primarily environmental but will also include a secondary requirement for traditional engineering needs. WERC also offers demolition, repair, emergency response, and operation and maintenance opportunities for both environmental and traditional engineering activities.		